

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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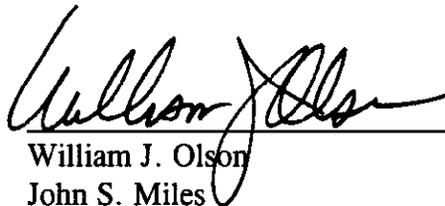
POSTAL RATE AND FEE CHANGES, 2000 )

POSTAL RATE COMMISSION  
OFFICE OF GENERAL COUNSEL  
Docket No. R2000-1

ERRATA TO DIRECT TESTIMONY OF DR. JOHN HALDI (APMU-T-1)  
ON BEHALF OF ASSOCIATION OF PRIORITY MAIL USERS, INC. (ERRATUM)  
(July 7, 2000)

The attached errata provide corrections on several pages of APMU-T-1, including corrections on pages 72 and 74 made in accordance with the response to USPS/APMU-T1-28. A list of the corrections is attached, along with copies of the relevant pages with the highlighted corrections.

Respectfully submitted,



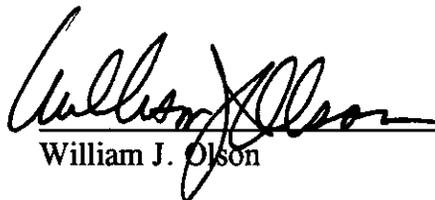
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Counsel for:

Val-Pak Direct Marketing Systems, Inc.,  
Val-Pak Dealers' Association, Inc., and  
Carol Wright Promotions, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served by the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



William J. Olson

July 7, 2000

**Corrections to Direct Testimony  
of APMU Witness John Haldi (APMU-T-1)**

<u>Page</u>	<u>Line</u>	<u>Change</u>
9	7	Delete the comma after “testimony”
47	6	“Table 8” to “Table 9”
47	8	“Table 8” to “Table 9”
48	5	“Table 8” to “Table 9”
49	17	“Table 8” to “Table 9”
68		“unrounded” to “rounded”
69		“unrounded” to “rounded”
72	11	“\$9.9” to “\$9.95”
74	19	“\$9,866(000)” to “\$9,951(000)”
74	21	“\$5,814,563(000)” to “\$5,814,438(000)”
74	24	“\$2,342,848(000)” to “\$2,342,723(000)”

1 **IV. COST CONSIDERATIONS**

2 **A. The PMPC Network**

3 In my testimony in Docket No. R97-1, I discussed the initiation of  
4 the Priority Mail Processing Center ("PMPC") contract.<sup>6</sup> Among other  
5 items, I noted that the stated goal of the new network was to provide at  
6 least 96.5 percent on-time Two-Day service for all destinations within the  
7 Phase I PMPC area. That same testimony discussed the effect of the  
8 PMPC contract on Priority Mail costs, particularly on that docket's Test  
9 Year, 1998.<sup>7</sup>

10 **The PMPC Network and Service Performance**

11 Even at that time, it was noted that the entire normal two-day  
12 performance period was given over to the contractor, Emery Worldwide  
13 Airlines Inc., to process and transport Priority Mail after receipt from the  
14 Postal Service until return to the Postal Service. Thus, it would be  
15 difficult to see how the Postal Service could "improve significantly" on the  
16 timely delivery of Priority Mail in terms of full end-to-end performance.  
17 Even if one were to discount the above-stated goal, and simply to focus

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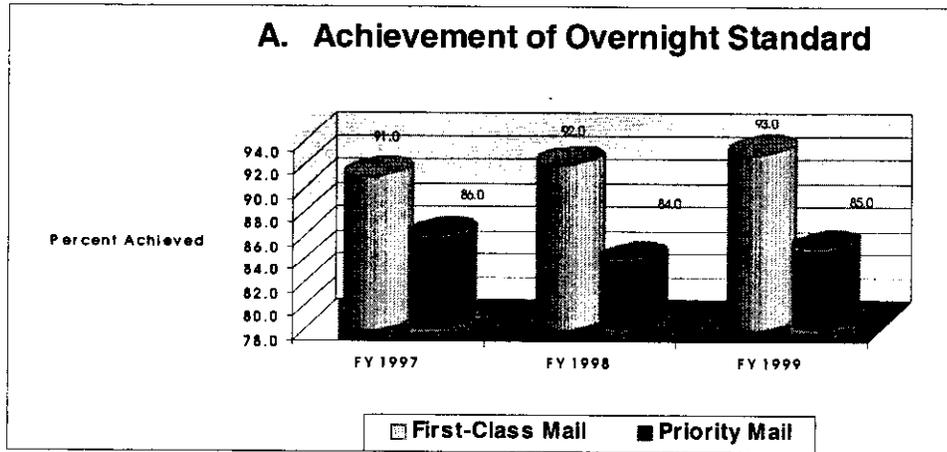
<sup>6</sup> Docket No. R97-1, NDMS-T-2, pp. 66-69.

<sup>7</sup> *Id.*, pp. 74-79

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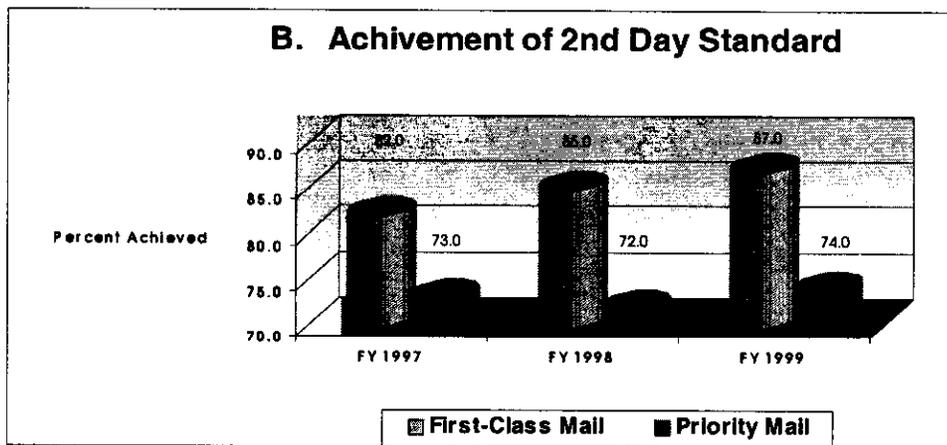
Figure 2

Performance of First-Class and Priority Mail  
Based on ODIS Data  
FY 1997 - FY 1999



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**Source:** Table 9 ODIS First-Class and Priority Mail Overnight Standard Achievement data.



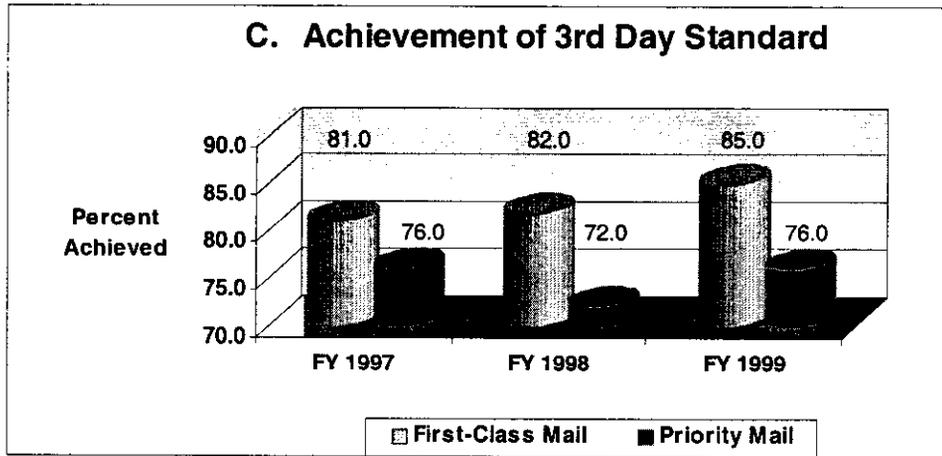
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**Source:** Table 9 ODIS First-Class and Priority Mail Two-Day Standard Achievement data.

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Figure 2 (Cont.)

Performance of First-Class and Priority Mail  
Based on ODIS Data  
FY 1997 - FY 1999



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**Source:** Table 9 ODIS First-Class and Priority Mail Three-Day Standard Achievement data.

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7 As these independently measured performance data show, no  
8 evidence indicates that efforts undertaken by the Postal Service to  
9 expedite the handling and transportation of Priority Mail over that of  
10 First-Class Mail have borne fruit. The fact that the two-day service area  
11 for Priority Mail is greater than that of First-Class Mail does not justify  
12 failure to achieve service commitments. Customers can be expected to  
13 assume that the Postal Service, in setting the more aggressive two-day  
14 delivery area, has adjusted its internal processes and transportation  
15 logistics to meet the asserted standard.

1 Value of service is not enhanced when customer expectations are  
2 raised, only to be frustrated by poor actual performance that falls well  
3 short of the mark, leaving disappointment and frustration in its wake. If  
4 anything, such an exercise degrades value of service.

5 **ODIS performance data.** Another Postal Service measurement  
6 system, the Origin Destination Information System (“ODIS”), produces  
7 information on service performance of First-Class Mail and Priority Mail.  
8 ODIS is not an end-to-end system. Instead, performance is measured  
9 from the origination office (time of postmark) to the destination office.  
10 Figure 2 depicts the ODIS performance of First-Class Mail versus that of  
11 Priority Mail. During the period FY 1997 – 1999, it shows that Priority  
12 Mail performance in overnight, two-day and three-day standard areas  
13 **trailed** First-Class Mail’s performance in all areas by 5 percent at best<sup>44</sup>,  
14 and by 13 percent at worst.<sup>45</sup> Put another way, **Priority Mail failures**  
15 were 7 percent higher than those of First-Class Mail in the overnight  
16 standard area, 11.7 percent higher in the two-day standard area, and 8  
17 percent higher in the three-day standard area. See Figure 2 and Table 9  
18 on the following pages. In not one single quarter, for any service  
19 standard, did Priority Mail have better performance or a higher value of

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<sup>44</sup> See Figure 2, Charts A and C.

<sup>45</sup> See Figure 2, Chart B.

**Table 10**

**Priority Mail  
APMU Proposed Rates (rounded)**

<b>Weight (Pounds)</b>	<b><u>L.1,2&amp;3</u></b>	<b><u>Zone 4</u></b>	<b><u>Zone 5</u></b>	<b><u>Zone 6</u></b>	<b><u>Zone 7</u></b>	<b><u>Zone 8</u></b>
<b>Flat Rate</b>	3.75	3.75	3.75	3.75	3.75	3.75
1	3.00	3.00	3.00	3.00	3.00	3.00
2	3.75	3.75	3.75	3.75	3.75	3.75
3	4.75	4.75	4.75	4.75	4.75	4.75
4	5.75	5.75	5.75	5.75	5.75	5.75
5	6.75	6.75	6.75	6.75	6.75	6.75
6	6.95	7.30	7.35	7.50	7.83	8.35
7	7.05	7.75	7.85	8.15	8.80	9.85
8	7.15	8.20	8.35	8.80	9.80	11.35
9	7.25	8.65	8.85	9.45	10.75	12.85
10	7.35	8.95	9.10	10.10	11.75	14.35
11	7.45	9.55	9.75	10.70	12.65	15.85
12	7.65	10.15	10.35	11.40	13.55	16.95
13	7.85	10.75	10.95	12.10	14.45	18.15
14	8.25	11.40	11.60	12.80	15.35	19.30
15	8.60	12.00	12.20	13.55	16.20	20.50
16	9.00	12.60	12.85	14.25	17.10	21.65
17	9.40	13.20	13.45	14.95	18.00	22.85
18	9.75	13.80	14.10	15.65	18.90	24.00
19	10.15	14.40	14.70	16.35	19.80	25.20
20	10.55	15.00	15.35	17.10	20.70	26.35
21	10.90	15.65	15.95	17.80	21.55	27.50
22	11.30	16.25	16.60	18.50	22.45	28.70
23	11.70	16.85	17.20	19.20	23.35	29.85
24	12.05	17.45	17.85	19.95	24.25	31.05
25	12.45	18.05	18.45	20.65	25.15	32.20
26	12.84	18.65	19.10	21.35	26.00	33.40
27	13.22	19.30	19.70	22.05	26.90	34.55
28	13.60	19.90	20.35	22.75	27.80	35.75
29	14.00	20.50	20.95	23.50	28.70	36.90
30	14.35	21.10	21.60	24.20	29.60	38.10
31	14.75	21.70	22.20	24.90	30.45	39.25
32	15.15	22.30	22.80	25.60	31.35	40.45
33	15.50	22.95	23.45	26.30	32.25	41.60
34	15.90	23.55	24.05	27.05	33.15	42.80
35	16.30	24.15	24.70	27.75	34.05	43.95
36	16.65	24.75	25.30	28.45	34.90	45.15
37	17.05	25.35	25.95	29.15	35.80	46.30
38	17.45	25.95	26.55	29.90	36.70	47.50
39	17.80	26.60	27.20	30.60	37.60	48.65
40	18.20	27.20	27.80	31.30	38.50	49.85
41	18.60	27.80	28.45	32.00	39.40	51.00
42	18.95	28.40	29.05	32.70	40.25	52.20
43	19.35	29.00	29.70	33.45	41.15	53.35
44	19.75	29.60	30.30	34.15	42.05	54.55
45	20.10	30.20	30.95	34.85	42.95	55.70
46	20.50	30.85	31.55	35.55	43.85	56.90
47	20.90	31.45	32.20	36.30	44.70	58.05
48	21.25	32.05	32.80	37.00	45.60	59.25
49	21.65	32.65	33.45	37.70	46.50	60.40
50	22.05	33.25	34.05	38.40	47.40	61.60
51	22.40	33.85	34.65	39.10	48.30	62.75
52	22.80	34.50	35.30	39.85	49.15	63.95

**Table 10 (cont.)**

**Priority Mail  
APMU Proposed Rates (rounded)**

<b>Weight (Pounds)</b>	<b><u>L,1,2&amp;3</u></b>	<b><u>Zone 4</u></b>	<b><u>Zone 5</u></b>	<b><u>Zone 6</u></b>	<b><u>Zone 7</u></b>	<b><u>Zone 8</u></b>
53	23.20	35.10	35.90	40.55	50.0	65.10
54	23.55	35.70	36.55	41.25	50.95	66.30
55	23.95	36.30	37.15	41.95	51.85	67.45
56	24.35	36.90	37.80	42.70	52.75	68.65
57	24.70	37.50	38.40	43.40	53.65	69.80
58	25.10	38.15	39.05	44.10	54.50	70.95
59	25.50	38.75	39.65	44.80	55.40	72.15
60	25.85	39.35	40.30	45.50	56.30	73.30
61	26.25	39.95	40.90	46.25	57.20	74.50
62	26.65	40.55	41.55	46.95	58.10	75.65
63	27.00	41.15	42.15	47.65	58.95	76.85
64	27.40	41.75	42.80	48.35	59.85	78.00
65	27.80	42.40	43.40	49.05	60.75	79.20
66	28.15	43.00	44.05	49.80	61.65	80.35
67	28.55	43.60	44.65	50.50	62.55	81.55
68	28.95	44.20	45.30	51.20	63.40	82.70
69	29.35	44.80	45.90	51.90	64.30	83.90
70	29.70	45.40	46.50	52.65	65.20	85.05

1           Third, to be conservative, I apply a passthrough of only 75 percent  
2 to the estimated costs. This gives a schedule of discounts for each  
3 pound, up to 70 lbs.

4           Fourth, I average the discounts over the pertinent range, *i.e.*, 6 to  
5 10 lbs., and every 10 lbs. thereafter.

6           Fifth, I round the proposed discounts down to the nearest 5 cents.

7           The volume of destination entry SCF Priority Mail used to dropship  
8 smaller items is not known, but it is reckoned that as much as 10  
9 percent of all zoned Priority Mail pieces over 5 pounds already may be  
10 used for this purpose. Using the volumes projected at APMU rates would  
11 result in a reduction in revenues of \$9.95 million. Offsetting this  
12 reduction would be revenue from any increase in Priority Mail volume as  
13 well as additional revenue from the enclosed pieces, both of which could  
14 be expected from the Postal Service's offering of a more reasonably  
15 priced, merged-mail, dropship product. Such a rate discount would help  
16 prevent loss of such SCF destinating Priority Mail volume to alternative  
17 carriers which have been better able to compete with Priority Mail entry  
18 due to the availability of consolidated national postage payment options  
19 which did not previously exist.

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Table 12

**Priority Mail Financial Summary**  
**Test Year Volume, Revenue and Cost After Rates**

**Test Year After Rates**

Volume	1,475,128 (000)
Revenue at proposed rates	\$5,820,622 (000)
Revenue per piece	\$3.95
Test Year after rates cost	\$3,384,221 (000)
Contingency	2.5%
Cost with contingency	\$3,468,827 (000)
Cost per piece	\$2.35
Cost coverage at proposed rates	168%
Average rate increase	2.6%

**Pickup Revenue and Cost**

Pickup revenue at proposed rates	\$2,972 (000)
Pickup costs	\$2,888 (000)

**Fee Revenue**

\$795 (000)

**Discount for SCF Delivery**

\$9,951 (000)

**Total Test Year After Rates**

Total volume	1,475,128 (000)
Total revenue	\$5,814,438 (000)
Total cost including contingency	\$3,471,715 (000)
Contribution to institutional costs	\$2,342,723 (000)
Cost coverage	168%

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